

Fringe benefits – Subsidies in respect of Loans

Paragraph 2(g) of the 7th Schedule prescribes that a taxable benefit shall be deemed to have been granted if the employer has paid any subsidy in respect of the amount of interest or capital repayments payable by the employee in terms of any loan. Paragraph 2(gA) of the 7th Schedule prescribes that a taxable benefit shall be deemed to have been granted if the employer has made a payment to a third party in respect of the granting by that party of a low interest or interest free loan to an employee. Such payment would be deemed to be a subsidy.

Value of the benefit in terms of Paragraph 12 of the 7th Schedule is the amount of any subsidy paid by the employer in respect of the amounts of interest or capital repayments.

Employees' tax – The full amount of the subsidy in respect of loans is subject to the deduction of employees' tax. IRP 5 – The cash equivalent of the benefit must be reflected under code 3807 on the IRP 5 certificate.

Example: Interest paid on a loan exceeds the official rate of interest: The employee obtains a loan from a financial institution and is required to pay interest thereon at a rate of 6.5%. The reason for the low interest rate is that his employer has arranged to recompense the financial institution for the loss of interest on the difference between 6.5% and the normal rate of interest charged, for example 13%.

As the interest paid by the employee and the payment made by the employer exceeds the official interest rate of 8%, the payment is deemed to be a subsidy which is subject to tax under the provisions of Paragraph 12 of the 7th Schedule. The value of the benefit (subsidy) will be equivalent to $13\% - 6.5\% = 6.5\%$. Interest paid on a loan does not exceed the

official rate of interest: The employee obtains a loan from an associated institution and is required to pay interest thereon at a rate of 6%. His employer has arranged to recompense the associated institution for the loss of interest but only to a maximum of 6.5%. As the interest paid by the employee and the payment made by the employer does not exceed the official interest rate of 8%, the benefit is regarded to be a low interest loan which is subject to tax under the provisions of Paragraph 11 of the 7th Schedule.

The value of the benefit will be equivalent to $6.5\% - 6.5\% = 0\%$.